

Message Text

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USOECN, USEEC

E.O. 11652: N/A

TAGS: EFIN, TU

SUBJECT: TURKISH REQUEST FOR INFORMATION ON MULTI-NATION
ASSISTANCE PROGRAM FOR PORTUGAL

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1. TURKISH EMBOFF TELEPHONED DEPT (EUR/WE) RECENTLY REQUESTING DETAILS ABOUT MULTI-NATION ASSISTANCE PROGRAM FOR PORTUGAL. DEPTOFF PROVIDED BASIC DETAILS ALONG LINES BELOW. TURKISH EMBOFF EXPRESSED APPRECIATION FOR INFO PROVIDED AND INDICATED HE MAY WISH TO FOLLOW UP AT A LATER DATE. EMBASSY MAY USE INFORMATION BELOW TO RESPOND IF GOT OFFICIALS INQUIRE REGARDING ASSISTANCE FOR PORTUGAL.

2. THE MULTI-NATION ASSISTANCE EFFORT FOR PORTUGAL CONSISTS OF BILATERAL LOANS (AND ONE GRANT) FROM 13 COUNTRIES TOTALING APPROXIMATELY DOLS 750 MILLION. IN ADDITION TO THE US, THE MAJOR DONORS ARE FRG, JAPAN, SWITZERLAND, VENEZUELA AND THE UK. THE US LOAN IS FOR DOLS 300 MILLION. THE LOANS ARE MEDIUM-TERM AND HAVE NON-CONCESSIONAL RATES OF INTEREST. THE LOANS ARE CONDITIONED ON PORTUGAL'S ADHERENCE TO AN ECONOMIC RECOVERY PROGRAM WORKED OUT IN COOPERATION WITH THE IMF. IN FACT, MOST OF THE LOANS INCLUDING THE US AND FRG LOANS, HAVE NOT YET BEEN DISBURSED SINCE NEGOTIATIONS BETWEEN PORTUGAL AND THE IMF ON A SECOND CREDIT TRANCHE WERE SUSPENDED AS A RESULT OF RECENT POLITICAL DEVELOPMENTS IN PORTUGAL. PORTUGAL CONCLUDED

A FIRST TRANCHE STANDBY AGREEMENT IN 1977.

3. THE ASSISTANCE PROGRAM FOR PORTUGAL WAS DEVELOPED TO ADDRESS A UNIQUE ECONOMIC AND POLITICAL SITUATION. WITH THE REVOLUTION OF APRIL 1974, PORTUGAL EMERGED FROM FIFTY YEARS OF POLITICAL AND ECONOMIC ISOLATION FROM EUROPE. THE TWO YEARS OF TURMOIL WHICH FOLLOWED THE REVOLUTION LEFT A LEGACY OF SEVERE ECONOMIC PROBLEMS. THE PRIVATE SECTOR WAS DISRUPTED BY NATIONALIZATIONS AND WORKER TAKEOVERS. MARKED INCOME REDISTRIBUTION LED TO A SURGE IN CONSUMPTION AND A PRECIPITOUS DECLINE IN INVESTMENT. LIMITED OFFICIAL USE

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PORTUGAL HAD TO ABSORB OVER 500,000 REFUGEES FROM ITS FORMER COLONIES. DECOLONIZATION MEANT THE LOSS OF ABOUT ONE FIFTH OF PORTUGAL'S EXPORT MARKETS. THESE SHOCKS OCCURRED AT A TIME WHEN SHARPLY INCREASED OIL PRICES AND THE GLOBAL RECESSION MADE ADJUSTMENTS ESPECIALLY DIFFICULT.

4. PORTUGAL AND THE INTERNATIONAL COMMUNITY RECOGNIZED THAT SOLVING THESE SEVERE AND UNIQUE ECONOMIC PROBLEMS WOULD REQUIRE SEVERAL YEARS OF BASIC STRUCTURAL ADJUSTMENT SUPPORTED BY EXTERNAL ASSISTANCE IN AN AMOUNT SIGNIFICANTLY GREATER THAN WHAT COULD BE OBTAINED FROM USUAL MULTILATERAL SOURCES. IN 1976, WHEN THE MAGNITUDE OF PORTUGAL'S ADJUSTMENT PROBLEM WAS RECOGNIZED, LITTLE MOVEMENT HAD TAKEN PLACE TO EXPAND THE AVAILABILITY OF MULTILATERAL OFFICIAL BALANCE OF PAYMENTS FINANCING. COUNTRIES PROVIDING ASSISTANCE TO PORTUGAL DECIDED TO GO FORWARD WITH THAT PROGRAM BECAUSE OF PORTUGAL'S UNIQUE CIRCUMSTANCES. THEY DID SO, HOWEVER, WITH THE INTENTION THAT FUTURE BALANCE OF PAYMENTS FINANCING PROBLEMS OF SIMILAR MAGNITUDE WOULD BE REFERRED TO A MULTILATERAL MECHANISM, SUCH AS THE WITTEVEEN FACILITY OF THE IMF. SINCE THEN SIGNIFICANT PROGRESS HAS BEEN MADE TOWARD THE ESTABLISHMENT OF

THAT FACILITY.

5. THE US HAS ALSO STRESSED THE UNIQUENESS OF THIS PROGRAM FOR PORTUGAL TO THE US CONGRESS. IN ASKING FOR APPROPRIATED FUNDS FOR PORTUGAL WE EXPRESSED OUR INTENTION THAT LARGE BALANCE OF PAYMENTS ASSISTANCE TO OTHER COUNTRIES WOULD BE PROVIDED THROUGH A MULTILATERAL CHANNEL SUCH AS THE WITTEVEEN FACILITY. IN APPROVING THE PROGRAM CONGRESS STRESSED THE ONE-TIME NATURE OF THIS TYPE OF PROGRAM. VANCE

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